

GAO

United States General Accounting Office

**Report to the Chairman, Subcommittee
on Defense, Committee on
Appropriations, House of
Representatives**

December 1991

**FINANCIAL
MANAGEMENT**

**DOD Faces
Implementation
Problems in Stock
Funding Repairable
Inventory Items**



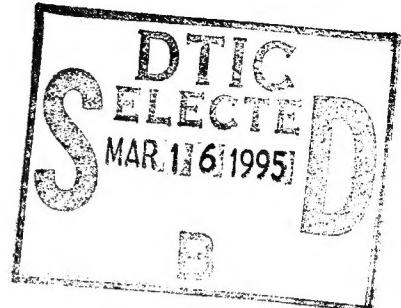
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Accounting and Financial
Management Division

B-246693

December 26, 1991

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives



Dear Mr. Chairman:

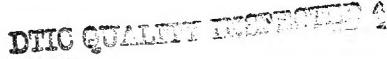
This is the second of two reports in response to your request on the status of the Department of Defense's (DOD) initiative to finance repairable items through the military services' stock funds. A repairable is an item that, if damaged or worn, can be repaired or overhauled for less than the cost of a new item. Under this initiative, customers—military units or organizations—will be provided funds to buy repairable items from their respective services' stock funds, rather than receiving them free from centrally funded supply operations. Defense currently values its repairables inventory at \$73 billion.

In June 1991, we reported¹ that DOD needed to standardize its policies on the pricing and valuation of repairable items. This report discusses (1) implementation problems that the Navy has experienced since it began financing aviation repairables through its stock fund in 1985 and actions it has taken to correct those problems, (2) current Army and Air Force efforts to begin financing repairables through their stock funds, (3) the impact that repairables financing had on the Army's and Air Force's development of their fiscal year 1992 budget requests, and (4) the presentation of repairables data in DOD's fiscal year 1992 budget justification.

Results in Brief

Since it began financing aviation repairables through its stock fund in fiscal year 1985, the Navy has reportedly reduced its demand for repairable items by 20 percent. However, the Navy has experienced continuing problems in accurately (1) accounting for aviation repairable items that customers returned to the stock fund and (2) billing customers for items provided to them. For fiscal years 1987 through 1990, the Navy's inventory system reported discrepancies—gains and losses—totaling over \$4 billion, which Navy officials attributed to accounting errors. Further, customers were erroneously billed hundreds of millions of dollars for

¹Financial Management: Uniform Policies Needed on DOD Financing of Repairable Inventory Items (GAO/AFMD-91-40, June 21, 1991).



not turning in items that reportedly had been returned. The Navy has initiated actions intended to correct these problems, but it is too early for us to ascertain their effectiveness.

DOD directed the Army and Air Force to begin buying repairables through their stock funds in fiscal year 1991 and selling them to customers in April 1992. However, because neither service currently has the systems in place to accurately account and bill for repairable items, they are likely to encounter problems similar to the Navy's and may not realize the \$2.1 billion in related savings that DOD has estimated.

Moreover, since repairables have been previously managed on a service-wide basis, the Army and Air Force do not have the information necessary to formulate accurate individual customers' budgets for repairable items. They estimate that it will take 2 to 4 years to do so. Further, DOD's fiscal year 1992 stock fund budget justification document did not provide the detailed data on repairable items that had been included in previous fiscal years' budget documents because DOD revised its budget format.

Continued oversight by DOD's Comptroller is essential to ensure that the services' stock funding efforts are successful and that they support departmentwide initiatives, such as the Defense Business Operations Fund (DBOF). DBOF's objectives are to identify the total cost of individual activities, such as supply operations, and improve their efficiency.

Background

Prior to 1981, all three military services used procurement appropriations to centrally purchase repairable items, such as carburetors, fuel pumps, and helicopter blades. Customers received these items without charge from their respective supply systems. When an item needed repair, the customer returned the item to the supply system and received a replacement. Operation and Maintenance appropriations were used to pay repair costs.

In 1981, the Navy began financing the purchase and repair of shipboard repairable items through its stock fund and expanded the program to include aviation repairables in 1985. Under this arrangement, customers use Operation and Maintenance appropriations to buy repairable items. When a customer buys an item from the stock fund and returns a damaged or worn item, it pays the stock fund an exchange price, equivalent to the average cost to repair or overhaul the item plus a stock fund

surcharge. However, if an item is not returned, the customer must pay the full price of a new item.

According to DOD, this practice has improved financial discipline and accountability in the management and control of these items and saved money by providing customers incentives to replace repairables only when necessary. DOD budget documents indicate that the Navy customers' annual demand for repairables decreased by 20 percent after the conversion to financing repairables through the stock fund.

In December 1989, the Office of the Secretary of Defense directed the Army and Air Force to begin financing repairables through their stock funds. To implement the directive, the Army and Air Force began to develop systems or modify existing ones to (1) better track the movement of repairables returned by customers and (2) begin billing customers for items they purchased. In October 1990, the Army and Air Force stock funds began to purchase new repairables from vendors. According to DOD's plan, Army and Air Force customers are to begin buying repairables from their stock funds in April 1992. DOD estimated that, based on the Navy's experience, financing repairables through the Army and Air Force stock funds would save about \$2.1 billion for fiscal years 1991 through 1995.

In October 1991, DOD established DBOF which consolidated the nine existing industrial and stock funds operated by DOD and the military services, as well as four other activities.² The Army, Navy, and Air Force stock funds will maintain their individual identities as part of DBOF. According to DOD, DBOF is intended to focus the attention of management on the cost of carrying out various DOD operations. Currently, neither DOD nor the Congress is aware of the total support costs of operating components, such as a military base or a fighter squadron. In the past, the focus was on the elements of cost rather than on the total cost of operations. DBOF is intended to improve the incentives and tools for managing existing resources with greater efficiency.

Objectives, Scope, and Methodology

The objectives of our review were to determine (1) if the Navy encountered internal control and accounting system problems in financing aviation repairables through its stock fund, and, if so, the actions taken to correct these problems, (2) what problems, if any, the Army and Air

²Defense Finance and Accounting Service, Industrial Plant Equipment Services, Defense Reutilization and Marketing Service, and Defense Technical Information Service.

Force need to address in financing repairables through their stock funds, (3) the impact that financing repairables through stock funds had on the Army's and Air Force's methods of developing their fiscal year 1992 budget, and (4) the adequacy of data on repairables presented in DOD's fiscal year 1992 budget justification documents. Appendix I contains a detailed discussion of our scope and methodology and lists the locations we visited. We conducted our review from October 1990 through October 1991, in accordance with generally accepted government auditing standards.

We discussed the results of our work with responsible agency officials and have incorporated their comments where appropriate. These officials generally agreed with our findings, conclusions, and recommendations. We believe that written agency comments were not necessary in this instance.

Problems Continue in the Navy's Tracking of and Billing for Repairable Items

Since 1985, when the Navy began financing aviation repairable items through its stock fund, it has had difficulty in accurately accounting for repairable items that customers reportedly have returned to the stock fund. From fiscal years 1987 through 1990, the Navy's inventory tracking system reported discrepancies of \$4.4 billion—losses of \$1.8 billion and gains of \$2.6 billion—related to repairable items, primarily resulting from bookkeeping errors. These discrepancies reduced the reliability of inventory financial reports thus obscuring true inventory losses, such as those resulting from theft or loss, and misstating the number of items on hand. Further, the discrepancies resulted in customers being billed for not returning worn or damaged items, even though the items reportedly had been returned.

The Navy has reported these deficiencies as material weaknesses in its annual Federal Managers' Financial Integrity Act reports since 1988. The reports recognize that the weaknesses could result in unnecessary procurement of repairables and in customers paying either too much or not enough for items purchased. The Navy has taken actions to reduce such discrepancies. However, it is too early for us to determine the effectiveness of these actions.

Data and Document Processing Problems Cause Billions of Dollars in Discrepancies

The Aviation Supply Office (ASO), which reports to the Navy Supply Systems Command, is responsible for purchasing and accounting for aviation repairable items within the stock fund. ASO uses an inventory tracking system to monitor shipment and receipt of repairable items from customers, through intermediate points, to their final destinations where items are repaired or stored.

According to a 1988 Naval Audit Service report,³ during the first 16 months—April 1985 through July 1986—that the Navy financed aviation repairable items through the stock fund, ASO's system used to track repairables reported losses of items valued at \$677 million. Our analysis of recent financial reports showed that such losses, as well as gains, continue to be reported. As shown in table 1, for fiscal years 1987 through 1990, the system reported a total of \$1.8 billion in losses and \$2.6 billion in gains.

Table 1: Losses and Gains Reported for Fiscal Years 1987 Through 1990

Fiscal year	Reported losses		Reported gains	
	Number of items	Value of items	Number of items	Value of items
1987	55,084	\$765,761,173	61,815	\$743,841,530
1988	27,574	343,947,206	60,333	699,909,846
1989	19,418	258,828,852	54,733	605,057,472
1990	29,340	411,043,334	46,269	551,565,409
Total	131,416	\$1,779,580,565	223,150	\$2,600,374,257

Navy Supply Systems Command and ASO officials acknowledged that reported losses and gains have been a continuing problem since 1985. They stated that most of the reported losses occurred because (1) customers did not accurately complete input documents, (2) activities involved in the movement, repair, and storage of repairables did not correctly enter data into the system, and (3) activities did not notify ASO that they had received items as required by Navy regulations. These statements are consistent with the findings reported by the Naval Audit Service and were later confirmed by a test the Navy Supply Systems Command performed in 1989. Further, according to an October 1990 Navy Inspector General report, about 8 percent of the items reported by customers as returned to the stock fund were never recorded as being

³Carcass Tracking and Billing for Aviation Depot Level Repairables (Naval Audit Service-123-N-88, June 24, 1988).

received and thus were ultimately reported as losses. Navy Supply Systems Command and ASO officials stated that the reported gains were also the result of these problems.

Navy Has Erroneously Billed Customers for Repairable Items

According to the previously mentioned 1988 Naval Audit Service report, from April 1985 through July 1986, ASO billed customers about \$270 million because the system showed that they had not returned broken items as reported. Our analysis covering fiscal years 1987 through 1990, showed that such billings steadily declined from \$310 million to \$86 million.

The Navy's tracking system was designed to automatically trigger a bill to a customer if a broken item is not acknowledged as received by the stock fund within 116 days of shipment by the customer. To account for the items, the system tracks repairables on an item-by-item basis by unique document number to ensure that each item is returned. The system was also designed to reverse bills and grant credits to customers if the system was notified that a previously reported unreturned item has been received.

According to the Naval Audit Service report, Navy Supply Systems Command officials, and ASO officials, the billing problems occurred because customers were not (1) accurately completing input documents showing they had returned items or (2) responding to follow-up inquiries made by ASO. For example, customers did not cite the proper document number when they turned in broken items. As a result, the tracking system showed that the items were not returned and ASO billed the customers for them.

Actions to Correct Tracking and Billing System Problems

The Navy has initiated several projects to improve the accuracy of data contained in the tracking system and of bills issued to customers. To help avoid data entry errors, such as transposition errors, the Navy has initiated use of machine-readable bar codes on input documents, which accompany the items as they move from one activity to another. When a customer completes the initial input document, data (such as the stock number) are bar coded on the document. When an activity, such as a central processing point known as a hub, receives the item, the document is scanned to record the receipt. This eliminates the chance of errors that could occur when data are manually entered. As of August 1991, the Navy had installed the bar coding equipment at 14 of 44 major sites and planned to equip the remaining 30 sites by December 1991.

To improve accountability over repairables that are in transit from customers to hubs, the Navy now holds activities financially responsible for items reported as lost. In October 1990, the Navy issued instructions requiring activities to maintain documentation to show that they had shipped or received repairable items. This is to provide an audit trail enabling the Navy to locate items or identify which activity is accountable for a lost item. If the accountable activity cannot prove that it has shipped the item, it is to be assessed its value.

To address the billing problems, the Navy provided customers with training and guidance on the stock fund process, including the importance of completing input documents correctly and responding to ASO inquiries accurately and promptly. Navy officials believe that their efforts to correct the billing problems have been effective as indicated by tracking system records that show a steady decline of bills for unreturned items. However, although training had helped to reduce the amount of follow-up bills, the continued billing problem still warrants management attention.

Army and Air Force Are Not Ready to Efficiently Finance Repairables Through Their Stock Funds

The Army and Air Force are presently developing or modifying existing tracking and billing systems to enable them to start financing repairable items through their stock funds. It is important that these systems be working properly when individual customers begin to purchase repairable items from the stock funds in April 1992; otherwise, they may experience problems similar to those encountered by the Navy.

DOD Comptroller officials recognize that to achieve the entire \$2.1 billion in savings estimated for fiscal years 1991 through 1995, they must establish financial incentives which encourage Army and Air Force customers to effectively manage funds provided to them for purchasing repairable items. This will require systems to (1) correctly bill individual customers and (2) accurately track the return of items from customers to the stock fund.

Army's Existing Tracking System Is Inaccurate

The Army has acknowledged that its current system does not accurately track items being returned by its retail stock fund customers to the wholesale supply system.⁴ These data accuracy problems were identified in a 1990 Army study and were confirmed by Army officials. It is important that the accuracy of data be improved since it will affect bills to customers and procurement decisions.

Data Entry Errors and Lack of Reconciliations

The 1990 study identified two problems that impede the Army's ability to track items: (1) data entry errors and (2) lack of reconciliation of records of items reported as being shipped by customers and received by depots. These two problems, which are similar to those experienced by the Navy, will impede the Army's ability to determine which activities are responsible for lost or misplaced items. The Army acknowledges that the use of bar coding input documents could help avoid the data entry errors. However, due to limited time and financial resources, the Army has not included bar coding in its implementation plan. In addition, Army officials told us that they had not considered holding activities financially responsible for items reportedly lost in transit.

Depots Not Promptly Acknowledging Receipt of Items

The Army Materiel Command, which is responsible for stock funding wholesale repairable items, and Army officials at the major commands and bases we visited agreed that the Army historically has had problems with wholesale stock fund depots not promptly notifying activities of the receipt of repairable items within the required 10-day period. Army officials were concerned that this problem would result in the retail stock fund customers losing credit for broken items returned to the wholesale stock fund and, thus, reduce their buying power. For this reason, the Army changed its policy in August 1991.

Now, the wholesale stock fund will grant credit to the retail stock fund and assume ownership for items at a retail stock fund location when it is notified by a retail stock fund that the items are being returned. Although this will ensure that the retail stock fund receives credit for returning items to the depots, it does not correct the problem of wholesale stock fund depots not promptly acknowledging receipt of returned items. Thus, notification delays still merit management attention.

⁴The Army has a two-tiered stock fund, consisting of one wholesale division and 10 retail divisions. The wholesale division consists of six major subordinate commands which procure supplies directly from vendors and hold stock in depots to meet demands from their customers—retail divisions. The wholesale division sells inventory to the 10 retail divisions which consist of 8 major commands, such as the U.S. Army Forces Command, and 2 functional areas. The retail divisions sell items to customers, such as Operations and Maintenance activities.

System Does Not Adequately Track Items in Transit

The 1990 Army study and Army major command and base level officials also expressed concern over the tracking system's inability to accurately monitor the number, condition, and location of repairable items as they move through intermediate points to their final destination. This information is needed to assist item managers in making decisions on the number of items to buy and repair and to identify which activities are accountable for lost items.

The Army has initiated two projects to correct problems with its tracking system and improve the central oversight over repairable items being returned to the wholesale stock fund depots. To track movement of items through intermediate points to their final destination and to provide information on the specific location of items while they are in transit, the Army plans to modify its Material Return Data Base. Currently, the Material Return Data Base is updated only twice for each shipment: once when a customer reports sending an item to a depot, and again when the depot acknowledges it has received the item. As a result, the item's exact location as it moves through intermediate points is not tracked.

The Army also plans to integrate the Material Returns Data Base with its wholesale stock fund system, called the Commodity Command Standard System, to provide managers information which previously was not readily available. The latter system is key to managing inventories because it provides data needed for the Army's budgeting, procurement, billing, collection, and stock control for repairable items. Army officials told us that they expected these two modification efforts to be completed by April 1992, when customers are to begin buying repairable items from the stock fund.

Air Force Systems That Account for Repairable Items Contain Inaccurate Data

The Air Force also needs to address long-standing problems with its existing systems used to account for repairable items. Since 1978, the Air Force Audit Agency, the Air Force Logistics Command (AFLC), the DOD Inspector General, and we have identified problems related to (1) depots not promptly and adequately resolving in-transit discrepancies, (2) activities making data entry errors, and (3) bases not promptly returning repairables to depots. These problems decrease the accuracy of data used to make management decisions and will diminish incentives for better financial management of repairables. As recently as April

1991, we reported⁵ that AFLC inventory records and accounts did not accurately report either the quantities or values of AFLC inventories, a condition which adversely affects purchasing decisions, budgets, and financial reporting of repairables.

AFLC and other Air Force officials have recognized the significance of these problems and their potential adverse affect on budget and procurement decisions and on the solvency of the stock fund. To identify ways to improve data quality, AFLC is studying the accuracy and timeliness of data entered at bases and transmitted to depots.

Actions Taken by Air Force to Provide Needed Billing Capability

The Air Force will not have the capability to begin billing individual customers for items purchased until (1) modifications are made to the base-level billing system and (2) a new system, called the Financial Inventory Accounting and Billing System, begins operating at the five Air Logistics Centers. Although DOD plans call for customers to begin buying items from the stock fund in April 1992, the two system efforts are not scheduled to be completed until October 1992.

The Air Force plans to centrally manage Operation and Maintenance funds for purchasing repairables until the billing systems are operational. Accordingly, individual customers will not be allotted—and required to manage—funds to purchase repairable items during the last half of fiscal year 1992, as planned by DOD. Instead, each month for the 6-month period from April through September 1992, Air Force headquarters will transfer one-sixth of the appropriated funds in the central account to the Air Force stock fund, rather than bill individual customers for each item purchased. Thus, customers will not have a financial incentive to limit their orders from the stock fund during this period. In addition, the lack of direct customer billing could cause the stock fund to be paid for more or fewer items than it issues. By statute (10 U.S.C. 2208), stock fund reimbursements are limited to actual costs. Accordingly, the Air Force is attempting to develop a means of determining the value of repairables issued to each customer during the 6-month period prior to implementation of the billing systems. The Air Force has yet to determine how it will manage the funds in the event that the billing systems are not operational by October 1992.

⁵Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Centers (GAO/AFMD-91-34, April 5, 1991).

Budgets for Repairables Can Be Improved

Plans for financing repairables through the stock fund required the Army and Air Force to formulate their fiscal year 1992 budget requests based on individual customer needs for repairable items. However, they did not have the historical data needed to do this. In addition, DOD's fiscal year 1992 DBOF budget justification for repairable items did not contain detailed information that had been provided in the past. Under the stock fund concept, the Congress will need such information to evaluate DOD's budget request for repairable items and determine if DOD's initiative on stock funding repairables achieves the \$2.1 billion of savings from fiscal years 1991 through 1995 that DOD anticipates.

Accurate Data Needed to Develop Individual Customers' Budgets for Repairables

In anticipation of conversion to stock funding, in fiscal year 1991, the Army and Air Force began accumulating demand data for individual customers which they need to (1) forecast individual customers' demands for repairables and (2) budget and allocate the proper amounts of funds for the purchase of repairables. Army and Air Force budget officials told us that it will take 2 to 4 years of actual experience to have sufficient data to reliably estimate individual customers' funding needs. Navy officials told us that it took them about 3 years of experience in stock funding repairables to accurately predict customers' needs.

If customer demand data estimates are inaccurate, Army and Air Force individual customers could receive too much or not enough funds to purchase repairable items. Customers that receive excessive funds may use them for purposes other than those originally intended. On the other hand, customers that do not receive sufficient funds to purchase repairables may not be able to fully perform their missions. However, by monitoring the individual customers' purchases of repairable items and reallocating funds to individual customers as necessary, the services could help ensure that the customers receive the appropriate amount of funds to purchase repairables.

DOD's Fiscal Year 1992 Budget Request Lacked Sufficient Disclosure on Repairables

DOD's fiscal year 1992 budget request did not contain the detailed data to (1) support the total amount of appropriated funds that DOD requested for repairable items and (2) reconcile customers' anticipated purchases of repairable items with anticipated sales by the stock funds. Although consolidated summary information, such as gross sales, sales to individual customers, credit granted to customers, and repair costs, was provided on all stock fund activities, this information was not separately identified for repairable items. In addition, other detailed information that had been presented in previous years was not included. For

example, the fiscal year 1991 and earlier Navy stock fund budget justification documents included information on the dollar value of net customer orders, net sales, obligations, and commitment targets for a 3-year period as well as data on the prices the Navy stock fund charged for repairable items. These documents had little or no information on Army and Air Force repairable items because these two services had not yet financed repairables through their stock funds.

The House Appropriations Committee's June 1991 report (House Report 102-95) expressed concern about the lack of information included in DOD's fiscal year 1992 budget justification document on repairable items. The report directed DOD to provide information in the 1993 budget justification on amounts of funds customers need for repairables, the dollar value of the repairables inventory, and the repair costs for these items.

Department-Level Oversight Critical to Correct Problems and Support DBOF

Stock funding repairables is a departmentwide effort that requires oversight by the Office of the DOD Comptroller to ensure that individual service efforts are successful and that they support related financial management improvement efforts. For example, the problems discussed in the previous sections of this report on the Navy, Army, and Air Force, if not corrected, will impede DOD's ability to implement the financing of repairables through the stock fund and, thus, hinder DBOF's success. Repairables will account for approximately 10 percent of DBOF's annual revenue and represent about 50 percent of its total assets.

In our April 30, 1991, testimony (GAO/T-AFMD-91-5) on DOD's planned implementation of DBOF, we stated that DOD needed to ensure that reliable systems are in place to accurately bill customers for goods and services provided. If the services do not establish such systems with adequate internal controls to ensure the proper receipt of funds from customers, DBOF's objectives of developing better cost data and highlighting the cost implications of management decisions will not be achieved.

The Chief Financial Officers (CFO) Act of 1990 stipulates that an agency CFO is responsible for overseeing all financial management activities relating to the programs and operations of the agency. The Comptroller—DOD's CFO—is also responsible for overseeing the preparation of financial statements for revolving fund operations, such as DBOF, as required by the CFO Act. In light of these requirements, it is incumbent upon the Comptroller to actively monitor the services' efforts to correct the weaknesses in their repairable tracking and billing systems.

DOD Comptroller officials have begun to monitor the status of the Army and Air Force efforts to stock fund repairables. For example, these officials have visited Army and Air Force activities to discuss their progress. Such involvement will become increasingly important as DOD develops standard policies, procedures, and systems under another departmentwide initiative referred to as the Corporate Information Management Project.

Conclusions

All three services are working to develop or improve their capability to stock fund repairables. However, until they can accurately track the return of items from customers to the stock fund and bill customers, they will not achieve the full benefits of this initiative.

In addition, accurate data and reliable systems are needed to develop budgets for repairable items, evaluate the success of stock funding repairables, and support other departmentwide initiatives, such as DBOF. For these reasons, it is critical that the DOD Comptroller actively monitor the services' efforts to correct their system weaknesses.

Recommendations

To help ensure that DOD's efforts to finance repairable items through its stock funds are successful, we recommend that the Secretary of Defense

- direct the Army and Air Force to (1) develop and implement techniques to ensure data accuracy and (2) hold activities that are responsible for items being reported as lost in transit financially accountable for those losses.
- direct the Air Force to continue to centrally manage customers' funds until its billing systems are operational. Until the systems are operational, the Air Force should develop information on the dollar amount of repairables issued to customers to ensure that amounts transferred to the stock fund closely approximate amounts issued to customers.
- direct the Army and Air Force to monitor the information on individual customers' annual purchases of repairables from the stock fund and reallocate funds to individual customers as necessary to ensure that they receive sufficient funds to accomplish their respective missions.
- augment future budget justification documents for the stock fund and customers by including information on gross sales, sales to individual customers, inventory balances, credit granted to customers, and repair costs.

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- direct the DOD Comptroller to closely monitor the Army, Navy, and Air Force efforts to correct identified problems with their respective tracking and billing systems.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force and other interested parties. We are also providing copies to the Subcommittee on Readiness, House Committee on Armed Services, because of that subcommittee's interest in DOD's implementation of DBOF. We will make copies available to others upon request.

Please contact me at (202) 275-7095 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,



David M. Connor
Director, Defense Financial Audits

Scope and Methodology

To determine if the Navy had encountered problems in its financing of aviation repairable items through its stock fund, we reviewed applicable Navy policies and procedures, the Navy Supply Systems Command's 1989 evaluation report, the Naval Audit Service's 1988 report on financing aviation repairable items through the stock fund, and the Navy's Federal Managers' Financial Integrity Act reports from 1984 through 1990. We focused on aviation repairable items because these items constitute \$2.4 billion, or 78 percent, of the fiscal year 1991 estimated sales of repairable items in the Navy.

To determine if the Navy corrected the reported problems in tracking repairable items and billing customers, we discussed corrective actions with officials from the Office of the Navy Comptroller, Navy Supply Systems Command, Navy Aviation Supply Office, and several Navy customers—Naval Air Stations in Norfolk, Virginia; Oceana, Virginia; and Willow Grove, Pennsylvania. We also reviewed related documentation. Further, we analyzed (1) gains and losses in financial reports and (2) billing reports for fiscal years 1987 through 1990. For our analysis of losses, the Navy Aviation Supply Office made a special inquiry into its tracking system, at our request, to ensure that the data in the tracking system covered the same period as the data in the official financial records.

To determine what problems the Army and Air Force may need to address relative to financing repairable items through their respective stock funds, we examined reports produced from their tracking systems and discussed the operations of these systems with Army and Air Force stock fund, budget, and logistics officials. Also, we reviewed our previous reports as well as Defense Inspector General and the audit services' audit reports, and the services' Federal Managers' Financial Integrity Act reports to determine if the Army and Air Force had experienced problems in accounting for repairable inventory items. We reviewed Army and Air Force implementation plans including proposed procedures for billing stock fund customers and examined the Air Force functional description for a new billing system. We discussed these plans with Army Materiel Command and Air Force Logistics Command officials to determine if the stock funds or their major customers were having problems in implementing the stock funding of repairable items.

To understand the budgetary impact of stock funding repairable items, we interviewed stock fund customers, such as the Air Force's Strategic Air Command and the Army's Forces Command, regarding the financing of repairable items through the stock funds. We also obtained the views

of DOD officials on how the stock funds would operate as part of DBOF. Further, we reviewed the fiscal year 1992 and prior years' budget justification documents and compared the level of detail for the stock funds and customers of the stock funds to determine if information on repairable items that was provided in prior budget documents was still being provided to the Congress.

A list of the locations visited during our review follows.

Navy

Navy Supply Systems Command, Arlington, Virginia
Navy Aviation Supply Office, Philadelphia, Pennsylvania
Norfolk Naval Air Station, Virginia
Oceana Naval Air Station, Virginia
Willow Grove Naval Air Station, Pennsylvania

Air Force

Air Force Logistics Command, Dayton, Ohio
Strategic Air Command, Offutt Air Force Base, Nebraska
Tactical Air Command, Langley Air Force Base, Virginia

Army

Army Materiel Command, Alexandria, Virginia
Army Logistics Center, Ft. Lee, Virginia
Aviation Systems Command, St. Louis, Missouri
Forces Command, Ft. McPherson, Georgia
U.S. Army Aviation Center, Ft. Rucker, Alabama
Depot Systems Command, Chambersburg, Pennsylvania
Letterkenny Army Depot, Chambersburg, Pennsylvania
Strategic Logistics Program, Ft. Belvoir, Virginia
Systems Integration and Management Activity, St. Louis, Missouri
Training and Doctrine Command, Ft. Monroe, Virginia
Troop Support Command; St. Louis, Missouri

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